

State of Utah



**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2002

State Of Utah
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For The Fiscal Year Ended June 30, 2002

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Olene S. Walker..... Lt. Governor
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State of Utah
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For the Fiscal Year Ended June 30, 2002

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INTRODUCTION

The following is a discussion and analysis of the State of Utah's financial performance and position, providing an overview of the State's activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the transmittal letter in the Introductory Section of this report and with the State's financial statements that follow this section. Beginning this year, the State implemented new reporting standards established by the Governmental Accounting Standards Board. These new standards significantly changed the content and structure of the financial statements. As a result, much of the information is not easily comparable to the previous year. Future reports will include extensive comparisons.

HIGHLIGHTS

Government-wide

- The State's net assets decreased \$212.1 million or 2.0 percent over the prior year. Net assets of governmental activities decreased \$219.5 million or 2.4 percent due to a decline in economic conditions. Net assets of business-type activities increased slightly by \$7.5 million, or 0.5 percent.

Fund Level

- Combined tax revenues were 4.3 percent lower than the prior year due to economic stagnation and higher unemployment in the State. The State's economic slowdown was similar to that of the national economy.
- Due to decreased tax revenues, the Legislature reduced fiscal year 2002 budgets by \$105.5 million across all state agencies. In addition, the Legislature used \$105.3 million of the State's Budget Reserve Account (Rainy Day Fund) to make up for revenue shortfalls in the State's Uniform School Fund.

Long-term Debt

- The State's long-term bonded debt increased a net \$632.6 million, or 26 percent. The increased debt was issued to fund highway and capital facility construction and student loan programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This report includes the State's Basic Financial Statements, Required Supplementary Information, and Supplementary Information. The Basic Financial Statements include three components: government-wide financial statements, fund financial statements, and notes to the financial statements.

Government-wide Statements –Reporting the State as a Whole

The Statement of Net Assets and the Statement of Activities beginning on page 25 together comprise the *government-wide financial statements*. These statements provide a broad overview with a long-term focus of the State's finances as a whole and are prepared using the *full-accrual* basis of accounting, similar to private-sector companies. This means all revenues and expenses are recognized regardless of when cash is received or spent, and all assets and liabilities, including capital assets and long-term debt, are reported at the entity level.

The government-wide statements report the State's *net assets* – the difference between total assets and total liabilities – and how they have changed from the prior year. Over time, increases and decreases in net assets measure whether the State's overall financial condition is getting better or worse. In evaluating the State's overall condition, however, additional non-financial factors should be considered such as the State's economic outlook, changes in its demographics, and the condition of its capital assets and infrastructure. The government-wide statements report three activities:

Governmental Activities – Most of the State's basic services fall under this activity including education, transportation, public safety, courts, corrections, health, and human services. Taxes and federal grants are the major funding sources for these programs.

Business-Type Activities – The State operates certain activities much like private-sector companies by charging fees to customers to cover all or most of the costs of providing the goods and services. Student loans, unemployment compensation, water project loan programs, and liquor sales are examples of business-type activities.

Component Units – Several entities are legally separate from the State, yet the State remains financially accountable for them. Colleges and Universities, Utah Housing Corporation, and Utah State Fair Corporation are examples of component units.

Fund Financial Statements – Reporting the State's Most Significant Funds

The fund financial statements beginning on page 30 provide detailed information about individual major funds, not the State as a whole. A fund is a group of related accounts that the State uses to keep track of specific resources that are segregated for a specific purpose. Some funds are required by law to exist, while others are established internally to maintain control over a particular activity. All of the State's funds are divided into three types, each of which uses a different accounting approach.

Governmental Funds – Most of the State's basic services are accounted for in governmental funds and are essentially the same functions reported as *governmental activities* in the government-wide statements. Governmental funds use the *modified accrual* basis of accounting, which measures the flow of current financial resources that can be converted to cash and the balances left at year-end that are available for future spending. This *short-term* view of the State's financial position helps determine whether the State has sufficient resources to cover expenditures for its basic services in the near future.

Proprietary Funds – Proprietary funds include enterprise funds and internal service funds and account for state activities that are operated much like private-sector businesses. Like the government-wide statements, proprietary fund statements are presented using the *full-accrual* basis of accounting. Activities whose customers are mostly outside of state government (e.g., water loan funds to local governments) are accounted for in *enterprise funds* and are the same functions reported as *business-type activities* in the government-wide statements. Activities whose customers are mostly other state agencies (e.g., motor pool) are accounted for in *internal service funds*. The internal service fund activities are consolidated with the governmental activities in the government-wide statements because those services predominantly benefit governmental rather than business-type activities.

Fiduciary Funds – Fiduciary funds account for assets that, because of trust relationships, can only be used for trust beneficiaries. The State is responsible for ensuring the assets in these funds are used for their intended purposes. Fiduciary funds use *full-accrual* accounting but are *not* included in the government-wide statements because the assets in these funds are not available to finance the State's own programs.

Reconciliation Between Government-wide and Fund Statements

The financial statements include schedules on pages 32 and 36 that reconcile the amounts reported for *governmental activities* on the government-wide statements (full-accrual accounting, long-term focus) with amounts reported on the *governmental* fund statements (modified accrual accounting, short-term focus). Following are some of the major differences between the two statements:

- Capital assets and long-term debt are included on the government-wide statements but are not reported on the governmental fund statements.
- Capital outlay spending results in capital assets on the government-wide statements but are expenditures on the governmental fund statements.
- Bond proceeds result in liabilities on the government-wide statements but are other financing sources on the governmental fund statements.
- Certain tax revenues that are earned but not yet available are reported as revenue on the government-wide statements but are deferred revenue on the governmental fund statements.

Notes to the Financial Statements

The notes beginning on page 52 provide additional schedules and information that are essential to a complete understanding of the financial statements. The notes apply to both the government-wide financial statements and the fund financial statements.

Required Supplementary Information

Following the Basic Financial Statements are budgetary comparison schedules for major funds with legally adopted budgets and condition assessment data related to the State's infrastructure. This information further explains and supports the information in the basic financial statements.

Supplementary Information

Supplementary Information includes combining statements for the State's nonmajor governmental, proprietary, and fiduciary funds and nonmajor discretely presented component units. This section also includes schedules which compare budgeted expenditures to actual results at the legal level of control, which is generally the line item level of the *Appropriation Acts*.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

As mentioned previously, new accounting standards significantly changed the content and structure of the financial statements, and much of the information is not easily comparable to prior years. Future financial statements will include extensive comparisons.

Net Assets. The largest component of the State's net assets, 75 percent, reflects investments in capital assets (land, buildings, equipment, roads, and other infrastructure) less all outstanding debt that was issued to buy or build those assets. As capital assets, these resources are not available for future spending, nor can they be readily liquidated to pay off their related liabilities. Resources needed to repay capital-related debt must be provided from other sources.

Restricted net assets comprise 17 percent of total net assets and are subject to constitutional, legal, or external constraints on how they can be used. Net assets that are restricted by the *Constitution of Utah* include income and corporate taxes that can only be used for public and higher education costs and motor fuel taxes that can only be used for transportation expenses. Net assets that are restricted by legal or contractual requirements include unemployment taxes that can only be used for unemployment benefits and long-term student loan receivables that are pledged for future revenue bond payments.

The remaining balance of unrestricted net assets may be used to meet the State's ongoing obligations, though certain laws and internally imposed designations of resources may further

limit the purposes for which those net assets may be used. For example, the balance of the State's Budgetary Reserve Account is reported as unrestricted net assets, but state law limits the use of those funds for operating deficits or retroactive tax refunds.

Changes in Net Assets. The State's total net assets decreased by \$212.1 million or 2.0 percent from the prior year. This decrease in net assets is a result of a slowing economy that had the combined effects of lower corporate profits, slower growth in personal income, higher unemployment, and higher demand for government services compared to fiscal year 2001.

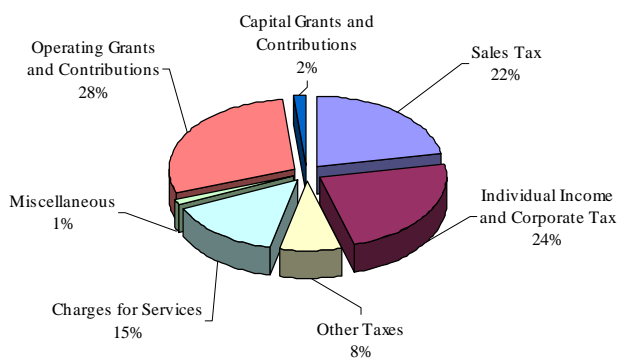
This year the State received 54 percent of its revenues from state taxes and 30 percent of its revenues from grants and contributions, mostly from federal sources. Charges for goods and services such as licenses, permits, liquor sales, state parks, and court fees, combined with other miscellaneous collections, comprised 16 percent of total revenues.

The charts below and on the next page summarize the State's total revenues, expenses, and changes in net assets for fiscal year 2002.

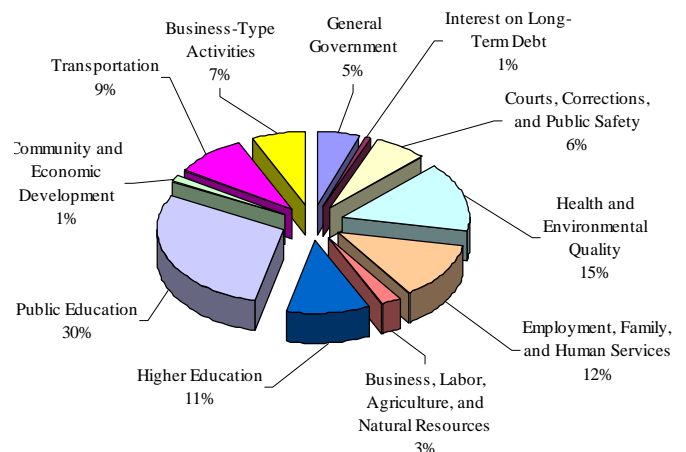
State of Utah
Net Assets as of June 30, 2002
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Current and Other Assets	\$ 2,802,112	\$ 2,870,922	\$ 5,673,034
Capital Assets	9,021,164	42,073	9,063,237
Total Assets	11,823,276	2,912,995	14,736,271
Current and Other Liabilities	621,340	55,952	677,292
Long-term Liabilities	2,335,428	1,291,513	3,626,941
Total Liabilities	2,956,768	1,347,465	4,304,233
Net Assets:			
Invested in Capital Assets, Net of Related Debt	7,806,829	21,336	7,828,165
Restricted	834,851	916,526	1,751,377
Unrestricted	224,828	627,668	852,496
Total Net Assets	\$ 8,866,508	\$ 1,565,530	\$ 10,432,038
Percent change from prior year	-2.4%	0.5%	-2.0%

State of Utah
Total Revenues - FY 2002



State of Utah
Total Expenses - FY 2002



State of Utah
Changes in Net Assets
for the Fiscal Year Ended June 30, 2002
(expressed in thousands)

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues			
General Revenues:			
Taxes	\$ 3,598,731	\$ 16,343	\$ 3,615,074
Other General Revenues	72,236	5,995	78,231
Program Revenues:			
Charges for Services	656,308	329,282	985,590
Operating Grants	1,798,817	163,584	1,962,401
Capital Grants	109,751	-	109,751
Total Revenues	6,235,843	515,204	6,751,047
Expenses			
General Government	364,174	-	364,174
Human Services and Youth Corrections	537,753	-	537,753
Corrections, Adult	191,690	-	191,690
Public Safety	153,833	-	153,833
Courts	104,623	-	104,623
Health and Environmental Quality	1,061,229	-	1,061,229
Higher Education	731,504	-	731,504
Employment and Family Services	323,593	-	323,593
Natural Resources	113,795	-	113,795
Community and Economic Development	91,004	-	91,004
Business, Labor, and Agriculture	66,016	-	66,016
Public Education	1,998,834	-	1,998,834
Transportation	644,954	-	644,954
Interest on Long-term Debt	68,964	-	68,964
Student Assistance Programs	-	79,666	79,666
Unemployment Compensation	-	272,924	272,924
Water Loan Programs	-	6,181	6,181
Other Business-type Activities	-	122,594	122,594
Total Expenses	6,451,966	481,365	6,933,331
Excess (Deficiency) Before Special Item and Transfers	(216,123)	33,839	(182,284)
Special Item - distribution to local governments	(29,772)	-	(29,772)
Transfers	26,358	(26,358)	-
Change in Net Assets	(219,537)	7,481	(212,056)
Net Assets - Beginning (as restated)	9,086,045	1,558,049	10,644,094
Net Assets - Ending	\$ 8,866,508	\$ 1,565,530	\$ 10,432,038

Governmental Activities

The State's total governmental revenues from all sources decreased \$199 million or 3.1 percent as Utah's economy felt the impact of the national economic downturn. This decline in revenues contributed to a \$219.5 million or 2.4 percent decrease in net assets of governmental activities. The State was able to handle the drop in revenues by making mid-year spending reductions and using portions of accumulated net asset balances.

The table on the next page shows to what extent the State's governmental activities relied on taxes and other general revenues to cover all of their costs. For fiscal year 2002, these programs generated \$2.56 billion, or 39.8 percent of their total expenses, through charges for services and grants. The remaining 60.2 percent of expenses were covered by state taxes and other general revenues.

State of Utah
Net Cost of Governmental Activities
(expressed in thousands)

	Total Program Expenses	Less Program Revenues	Net Program Costs	Program Revenues as a Percentage of Total Expenses
General Government	\$ 364,174	\$ (292,626)	\$ 71,548	80.4%
Human Services and Youth Corrections	537,753	(258,191)	279,562	48.0%
Corrections, Adult	191,690	(9,255)	182,435	4.8%
Public Safety	153,833	(89,641)	64,192	58.3%
Courts	104,623	(36,001)	68,622	34.4%
Health and Environmental Quality	1,061,229	(806,279)	254,950	76.0%
Higher Education	731,504	(1,699)	729,805	0.2%
Employment and Family Services	323,593	(271,100)	52,493	83.8%
Natural Resources	113,795	(72,857)	40,938	64.0%
Community and Economic Development	91,004	(45,312)	45,692	49.8%
Business, Labor, and Agriculture	66,016	(53,520)	12,496	81.1%
Public Education	1,998,834	(248,184)	1,750,650	12.4%
Transportation	644,954	(380,211)	264,743	59.0%
Interest on Long-Term Debt	68,964	-	68,964	0.0%
Total Governmental Activities	\$ 6,451,966	\$ (2,564,876)	\$ 3,887,090	39.8%

Business-type Activities

Despite the slow economy, revenues from the State's business-type activities continued to grow at healthy rates, increasing \$93.9 million or 22.3 percent over the prior year. Most of this increase was from a \$62.6 million distribution from the federal government to the Unemployment Compensation Fund. However, net assets for the combined business-type activities increased only \$7.5 million or 0.5 percent as higher expenses in the Unemployment Compensation program offset gains in net assets in the other activities.

All of the State's business-type activities operate from program revenues except for the Water Loan Programs and the Agriculture Loan Fund which by law receive dedicated sales taxes to provide additional capital for loans. Accounting standards require unemployment taxes that are collected from employers and deposited in the Unemployment Compensation Fund be reported as charges for services rather than taxes. Therefore, taxes in the business-type activities are comprised entirely of sales taxes in the water and agriculture loan programs.

All of the State's business-type activities generated sufficient revenues to cover their expenses this year with one exception. The Unemployment Compensation program was forced to use accumulated reserves to cover a 97.5 percent increase in benefits paid to unemployed individuals. This increase was a result of rising unemployment spurred by the national economic slowdown.

FINANCIAL ANALYSIS OF THE STATE'S GOVERNMENTAL FUNDS

Fund Balances

At June 30, 2002, the State's governmental funds reported combined ending fund balances of \$1.79 billion. Of this amount, \$1.16 billion or 65 percent is reserved for specific programs by state law, by external constraints, or by contractual obligations. Unspent bond proceeds, balances of restricted accounts, and agencies' nonlapsing balances are included in reserved fund balance. An additional \$385.8 million or 21.6 percent of total fund balances has been designated through internally imposed limitations on uses of certain funds. Note 11 on page 81 contains more details about reserved and designated fund balances at June 30, 2002.

The remaining \$240.2 million or 13.4 percent of fund balance is available for appropriation for the general purposes of the funds. The State's two main operating funds, the General Fund and the Uniform School Fund, did not end the year with any unreserved undesignated fund balance, commonly referred to as "surplus." Although inflows in the General Fund exceeded outflows by \$2.2 million, \$1.1 million of the excess was transferred to the Budget Reserve Account as required by law. The remaining \$1.1 million is designated by law for the Industrial Assistance Fund. Also, the Uniform School Fund required a transfer of \$105.3 million from the Budget Reserve Account in the General Fund to avoid ending the year with a deficit unreserved undesignated fund balance.

State of Utah
Governmental Fund Balances as of June 30, 2002
(expressed in thousands)

	General Fund	Uniform School Fund	Transportation Fund	Centennial Highway Fund	Trust Lands Fund	Nonmajor Funds	Total
Reserved	\$ 221,474	\$ 43,891	\$ 45,557	\$ 158,808	\$ 360,376	\$ 331,934	\$ 1,162,040
Unreserved Designated	146,551	138,328	39,165	-	-	61,789	385,833
Unreserved Undesignated	-	-	46,198	146,549	-	47,468	240,215
Total	\$ 368,025	\$ 182,219	\$ 130,920	\$ 305,357	\$ 360,376	\$ 441,191	\$ 1,788,088
Percent change from prior year	-35.2%	-24.9%	3.8%	377.6%	-0.1%	89.3%	12.1%

General Fund

During fiscal year 2002, the General Fund's fund balance decreased \$199.8 million or 35.2 percent due to lower tax collections, increased expenditures, and a net increase in transfers out of the fund.

Total General Fund revenues increased \$133.3 million or 4.2 percent; however, total tax collections dropped \$6.8 million or 0.4 percent from the prior year due to the State's slow economy. While sales tax inched up \$6.0 million or 0.4 percent and insurance premium tax gained \$10.6 million or 23.1 percent, inheritance tax and oil and gas severance tax together fell \$42.3 million or 56.0 percent from the prior year. Also, historically low interest rates and lower cash balances kept investment income \$22.2 million or 59.1 percent below last year's level. Federal funding was the largest single factor offsetting the shortage in tax collections and investment income as federal grants climbed \$143.5 million or 12.0 percent from the prior year.

Total General Fund expenditures increased by \$328.0 million or 10.6 percent as the sluggish economy significantly increased the public's demand for government services. Following are examples:

- General assistance and food stamp cases increased 10 and 15 percent, respectively.
- Medicaid costs increased 12 percent while the federal matching rate continued to decline, this year by 1.1 percent.
- Public safety costs increased 23 percent as a result of activities related to the Winter Olympic Games.

State agencies relied heavily on federal funding to cover these increased demands. State agencies also saw increases in costs for items such as fighting wildfires, combating insect infestation on farmlands, and building fish hatcheries and wildlife management facilities. These increased costs in the face of budget reductions brought agencies' reserved nonlapsing balances down by \$21.9 million or 25 percent compared to the end of the prior year.

Uniform School Fund

The Uniform School Fund's fund balance decreased \$60.5 million or 24.9 percent as a direct result of the state and national economic downturn. Individual and corporate income taxes fell \$182.5 million or 9.7 percent from the prior year. Transfers of \$105.3 million from the Budget Reserve Account and \$19.0 million from the Sports Authority Fund (nonmajor fund) helped avoid severe cuts to programs in public and higher education. Expenditures for public education increased a modest \$60.6 million or 3.1 percent, mostly due to a 5.5 percent increase in the Weighted Pupil Unit (WPU) that was left intact amidst all other budget reductions during the year. The WPU is the State's basic formula for determining funding for local school districts.

Budgetary Highlights – General Fund and Uniform School Fund

The State considers both the General Fund and Uniform School Fund together in managing the budget. Therefore, both funds must be discussed together to provide an accurate picture of the budget. The State's economic downturn resulted in a \$394.7 million or 10.4 percent reduction in estimated revenue for the General Fund and Uniform School Fund compared to original revenue estimates made before the fiscal year began. The largest declines were in individual and corporate income tax collections, inheritance taxes, and oil and gas severance taxes. As a result, the Governor and Legislature balanced the 2002 budget through a combination of measures:

- \$105.5 million budget reductions across all state agencies.
- \$87.2 million in transfers from restricted accounts, surpluses, beginning balances, and miscellaneous sources.
- \$88.7 million in general obligation bonds to replace cash taken from appropriated capital projects.
- \$113.3 million in estimated transfers from the Budget Reserve Account.

Actual revenue collections ended up \$12.4 million or 0.4 percent above the final budget estimates, and the actual transfer from the Budget Reserve Account to the Uniform School Fund was \$105.3 million. The Budget Reserve Account ended the fiscal year with a balance of \$19.5 million.

Transportation Fund

Federal funding in the Transportation Fund increased \$79.4 million but decreased \$73.5 million in the Centennial Highway Fund as UDOT shifted most of its federal dollars out of new construction and into critical preservation and maintenance needs on the State Transportation Improvement Plan (STIP). Most STIP projects do not add lane miles or structures but are designed to preserve existing infrastructure. Projects include bridge repair and replacements, shoulder and pavement repairs, and safety improvements.

In fiscal year 2002 the Department of Transportation (UDOT) entered into an agreement with Salt Lake County whereby the State began collecting a portion of the county's voter-approved public transit sales tax to accelerate work on certain transportation projects within the county. Accordingly, the Transportation Fund's sales tax collections increased \$12.3 million or 65.4 percent over the prior year. At June 30, 2002, UDOT held \$10.8 million of public transit sales taxes in reserve for a proposed I-15 interchange at 114th South, pending completion of an environmental impact statement that was required by a lawsuit brought against the project.

Total expenditures in the Transportation Fund increased by \$128.7 million or 25.1 percent. In addition to more STIP projects, UDOT incurred increased costs this year for several park-and-ride lots and other transportation services required for a successful Winter Olympic Games. Also, the Aeronautics Division of UDOT spent \$3.8 million or 10.8 percent more for local government airport construction and maintenance. Finally, UDOT saw a \$5.7 million or 7.8 percent increase in highway maintenance costs mainly due to added lane miles on I-15 in Salt Lake and Davis Counties.

Centennial Highway Fund

During the year, the State issued \$277.8 million of general obligation bonds for highway construction. At June 30, 2002, the Centennial Highway Fund held \$158.8 million of unspent bond proceeds, which amount is reported as reserved fund balance. In fiscal year 2002, the Legislature transferred \$21.2 million of savings from the I-15 reconstruction project to the General Fund, with an additional \$10.8 million in savings to go to the General Fund in fiscal year 2003.

Centennial Highway Fund expenditures dropped \$159.3 million or 43.7 percent mostly because the I-15 project was completed last year and a lawsuit in November 2001 halted construction of the Legacy Highway in Davis County. Still, UDOT continued work on several other major projects including new overpasses on I-15 and U.S. 89 in Farmington, reconstruction of 31st Street in Ogden, and I-15 interchanges in Pleasant Grove and Washington County.

Trust Lands Fund

For the second year in a row the Trust Lands Fund had significant unrealized losses on its investments as a result of declines in the national securities markets. However, the permanent fund generated \$9.7 million of cash investment earnings for the Uniform School Fund that is earmarked for distribution to local school districts.

Nonmajor Governmental Funds

The Utah Sports Authority received \$58.5 million from the Salt Lake Olympic Organizing Committee as final payment for the sale of the winter sports park in 1999. The Utah Sports Authority disbursed \$29.8 million of this amount to local governments as repayment of their portion of sales taxes that had been used to build the facilities during the 1990's. Of the remaining \$28.7 million, the Legislature transferred \$9.5 million to the Capital Projects Fund, \$19.0 million to the Uniform School Fund to help cover decreased tax revenues, and \$200 thousand to the General Fund to help cover costs of the State Olympic Coordinator's Office.

FINANCIAL ANALYSIS OF THE STATE'S PROPRIETARY FUNDS**Student Assistance Programs**

The Student Assistance programs finished the year with an increase of \$20.8 million or 11.7 percent in net assets. Rising enrollments at the State's colleges and universities created more demand for student loans than in prior years.

Unemployment Compensation Fund

The State's rising jobless rate brought a 77 percent increase in the number of unemployment benefit claims over the prior year. Assets were sufficient to handle the increased demand for benefits, but net assets fell \$65.2 million or 10.5 percent due to the increase in claims. Also, this year the State received a \$62.6 million distribution under the federal *Reed Act* of unemployment taxes that the federal government considered "surplus" to the federal program.

Water Loan Programs

To help balance the budget in fiscal year 2002, the Legislature redirected to the General Fund \$500,000 of sales tax that is normally earmarked for water loans. The Legislature redirected an additional \$9.7 million for fiscal year 2003. These programs have sufficient revenues and net assets to cover current commitments.

CAPITAL ASSET AND LONG-TERM DEBT ADMINISTRATION

Capital Assets

The State's investment in capital assets increased a net \$236 million during the year. The change consisted of net increases in infrastructure of \$162 million; land and related assets of \$47.9 million; and buildings, improvements and construction in progress of \$31.1 million. Machinery and equipment decreased a net \$5 million during the year. A significant portion of the buildings financed by the State are actually owned by the colleges and universities which are component units of the State. Therefore, while the capital assets are on the component unit's financial statements, any outstanding debt issued to finance construction of these assets is reported as a liability of the State's governmental activities. This in turn reduces unrestricted net assets. As of June 30, 2002, the State had \$239.1 million of outstanding debt related to capital assets of component units.

The State has adopted an allowable alternative to reporting depreciation for roads and bridges (infrastructure assets) maintained by the Utah Department of Transportation (UDOT). Under this alternative method, referred to as the "modified approach," UDOT must maintain an asset management system and demonstrate that the infrastructure is being preserved at or above established condition levels. Infrastructure assets accounted for under the modified approach are not depreciated, and maintenance and preservation costs are expensed.

The State's established condition level for roads is to maintain 50 percent with a rating of "fair" or better and no more than 15 percent with a "very poor" rating. The most recent condition assessment, completed for calendar year 2001, indicated that 70.4 percent of the roads were in "fair" or better condition. Only 8.3 percent of the roads assessed were in "very poor" condition. These results reflect improvement over calendar year 2000, when 66.5 percent of the roads were assessed as "fair" or better, and 10.7 percent assessed were in "very poor" condition.

The State's established condition level for bridges is to maintain 50 percent with a rating of "good" and no more than 15 percent of bridges with a "poor" rating. The most recent condition assessment, completed in April 2002, indicated that 70.4 percent and 2.8 percent of bridges were in "good" and "poor" condition, respectively. These results reflect improvement over the prior year, when 67.0 percent of the bridges were assessed as "good," and 5.0 percent assessed were in "poor" condition.

During fiscal year 2002, the State spent \$330.9 million to maintain and preserve roads and bridges. This amount is 16.1 percent above the estimated amount of \$285 million needed to maintain these assets at established condition levels. During the last few fiscal years the State was aggressive in the maintenance and preservation of many of the State's roads in preparation for the Winter Olympic Games. The State anticipates that expenditures in future years will be more comparable to the estimated amounts needed to preserve the State's infrastructure assets.

More information about capital assets is included in Note 8 on page 69, and more detailed information on the State's modified approach for reporting infrastructure is presented in the Required Supplementary Information on page 102.

Long-term Debt

The *Constitution of Utah* authorizes general obligation borrowing only as approved by the Legislature. The *Constitution* also limits outstanding state general obligation debt to 1.5 percent of the value of all taxable property in the State, while state law further restricts outstanding state general obligation debt to no more than 20 percent of the appropriations limit. As of June 30, 2002, the State was \$361.4 million below the statutory debt limit and \$974 million below the debt limit established in the *Constitution*.

Of the total bonds issued during the fiscal year, \$277.8 million was for highway construction, \$208 million was to refund variable-rate highway notes for fixed-rate general obligation bonds, and \$269.3 million was for capital facility construction. The remaining bonds were issued to provide capital for purchasing student loans in the Student Assistance programs.

The State's active management of recent economic difficulties has helped the State maintain its triple-A rating on general obligation bonds and double-A rating on lease revenue bonds from all three national rating agencies, the best ratings possible. These ratings save millions of dollars in interest each year because the State is able to get the lowest possible interest rates on new debt. Note 10 on page 73 contains more information about the State's outstanding debt.

State of Utah
Bond Activity for Fiscal Year 2002
(expressed in millions)

	Governmental Activities		Business-type Activities	
	General Obligation	Lease Revenue	Revenue / Lease Revenue	Total
Bonds issued	\$ 629.2	\$ 114.4	\$ 213.9	\$ 957.5
Bonds refunded	(208.0)	-	-	(208.0)
Bonds retired	(92.8)	(11.5)	(12.6)	(116.9)
Net change	\$ 328.4	\$ 102.9	\$ 201.3	\$ 632.6
New bonds authorized by the Legislature	\$ 430.3	\$ -	\$ 1.8	\$ 432.1
Bonds authorized but unissued at June 30	\$ 141.3	\$ 2.5	\$ 1.8	\$ 145.6

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

Original revenue estimates for fiscal year 2003 were approximately 3.3 percent below the original revenue estimates for fiscal year 2002. To balance the original 2003 budget, the Legislature implemented \$174.6 million in budget reductions from original fiscal year 2002 budget levels. This was enough to cover the revenue shortfall plus fund critical budget items such as Medicaid increases, a 0.75 percent increase in the WPU for public education, higher education enrollment growth, and health insurance increases for state employees.

The Legislature also raised the cigarette tax by 18 cents per pack, from 51.5 cents to 69.5 cents. The tax increase is expected to yield \$13.8 million per year, with 58 percent of the increase earmarked for tobacco prevention and cessation programs, cancer research, and medical education. The remaining 42 percent of the increase will go to the General Fund. No other taxes were increased.

Due to additional declines in revenue estimates for fiscal year 2003, the Legislature met in special session in June and early July 2002 to reduce the 2003 budget by another \$173.1 million, a decline of 7.8 percent from the original fiscal year 2002 revenue estimates. Budget adjustments included the following:

- \$71.5 million in reductions to agencies' budgets.
- \$66.4 million reduction in ongoing General Fund support for the Centennial Highway Fund.
- \$16.4 million reduction in cash available for capital facilities, to be replaced with general obligation bonds.
- \$17.8 million transfer from the Tobacco Endowment Fund (nonmajor fund) to the General Fund.
- \$1 million in transfers from various restricted accounts to the General Fund.

Reductions in funding for fiscal year 2003 will result in program and service reductions in most state agencies, higher education, and public education. State agencies estimate a reduction of 482 full-time equivalent positions as a result of the budget cuts, or 2.4 percent of the State's workforce. Most of these reductions in force will be handled through attrition, though some layoffs have already occurred.

The outlook for Utah's economy in the near future continues to be uneven. While taxable retail sales are expected to climb 4.1 percent in 2002, the 2002 unemployment rate is expected to be 6.0 percent and the growth in personal income is expected to be 2.7 percent for the same period. Because these indicators are measured on a calendar-year basis, the impact on the State budget will be felt well into fiscal year 2003. Already, preliminary data for fiscal year 2003 show revenues are approximately \$117 million lower than the 2003 budget estimates adopted during the recent special session. The Governor and Legislature are expected to convene another special session in December to address this further decline in revenues.

CONTACTING THE STATE'S DIVISION OF FINANCE

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Division of Finance, Financial Reporting Section at (801) 538-3525.

The preceding discussion and analysis focuses on the State's primary government operations. With the exception of a few nonmajor component units, the State's component units each issue separate audited financial statements which include their respective management's discussion and analysis. Component unit statements may be obtained from their respective administrative offices or from the Utah State Auditor's Office, 211 State Capitol, Salt Lake City, UT 84114.